Inside Workings of Governments in Great Wars

Investigations Which Show How Great Wars Are Financed—System Operated During the Civil War Gave Birth to the Seven Thousand National Banks That Are Scattered Throughout the Country on This Semi-Centennial—This Also Is the Anniversary of the Greenback, or Paper Bank-Note, Which Is the Medium of Exchange Throughout the United States To-Day. Revelation of Secret Methods.

BY FRANCIS TREVELYAN MILLER.

THIS is the semi-centennial of our modern banking system—a system which to-day has a string of seven thousand banking houses, with more than a billion dollars capital, stretching over the country to avert great financial disasters and to provide for the distribution of currency.

This, too, is the fiftieth birthday of the modern medium of exchange—the greenback or bank note that you are carrying in your pocket. Fifty years ago it began to take a tremendous part in the world's progress and to-day makes it possible for a man to carry on his person the "long roll" that has become both the envy and the benefactor of a great race.

To-day also is the anniversary of still another great institution that has become a powerful factor in our national life—the internal revenue, a method by which the government secures the income with which to meet the expenses of its various departments—a sum that now amounts to a third of a billion dollars each year.

These anniversaries and many others trace their paternity directly back to the Civil War, when the Federal government was daily balancing on the edge of a financial precipice; when, but for the genius of the financiers of the day, the nation would have gone down with a crash.

This phase of the Civil War is seldom considered. It was a gigantic financial proposition to keep nearly three million men on the firing line. The drafts upon the United States Treasury every day for 1,500 consecutive days of battles varied between $1,000,000 and $4,000,000 a day. To meet these unprecedented demands required the genius of a financial Napoleon. That man was Salmon P. Chase, of Ohio, who was appointed to Secretary of the Treasury—the most ardous post in the Cabinet of President Lincoln. The difficulties that this master of money met and overcame led the London Times to say: "The hundredth part of Mr. Chase's embarrassments would tax Mr. Gladstone's ingenuity to the utmost, and set the (British) public mind in a ferment of excitement."

Borrowing Three Billion Dollars.

The story of how this was done is one of the greatest financial deals in history. Within a space of four years the United States borrowed over $3,750,000,000. In the same time it paid off its indebtedness to the amount of $915,000,000, besides paying its daily expenses which averaged nearly $2,000,000. And this was done when the government was in the throes of an internal war; when no one knew surely but what the government would tumble any day, and the loans would be an entire loss.

To meet these tremendous bills as they came due, the financial system of the nation went through a siege of fire equal to that of its soldiers on the battlefield. But this same siege cemented the system into one that places modern United States in the forefront of the business world to-day.

The treasurer of the Confederacy had even greater problems to solve. Christopher G. Memminger was the genius behind it. The financing of a new nation devolved upon him. Memminger began the day after Jefferson Davis took office as President. Within twenty-four hours the Treasury and all other departments of the Confederacy, was located in a banking house on Commercial Street in Montgomery, Alabama.

"The world must know at once that we are at work, and that we are in earnest," announced Secretary Memminger.

The newspapers the following day carried a card announcing the location of the Treasury of the Confederacy. During the forenoon of the first day, Memminger's private secretary was the only occupant of the office—a small room.

A captain of militia was the first customer. He entered and presented an order on the Treasury for money to buy blankets and rations for 100 soldiers who just enlisted. The clerk, who smiled whimsically, turned his own pocket book over to the captain.

"This captain," he said, "is all the money that I will certify as being in the Confederate Treasury at this moment."

The purse contained less than $10. However, the Secretary of the Treasury pledged his entire personal fortune to the government, and thus the bills were met.

Money! Money! Money! Was the Cry.

Both governments needed cash to carry on the war. Secretary Chase, in common with the whole North, believed the war would be over in a month, and his first call for money was through loans on bonds for $5,000,000. After the battle of Bull Run, when the North awakened to the tremendous task that lay before it, the secretary borrowed $250,000,000. Three weeks later he borrowed $50,000,000 more. The largest loan on record was made in July, 1863, when Chase borrowed $600,000,000 at one time.

Even these tremendous sums were insufficient to meet current expenses. The government found it necessary to create ready cash. This was done by increasing the duty on tea, sugar, coffee, spirits and liquors, and the proceeds were turned into the war fund. All incomes over $800 were taxed at the rate of 3 per cent. The labors of collecting and recording these taxes were too onerous for the Treasury, so Congress created the Department of Internal Revenue. During the war this department alone collected nearly $260,000,000.

The greatest financial measure of the war was the "legal tender act," which created the modern Treasury note or "greenback." The father of this method of financial exchange was Senator E. G. Spaulding, of New York, who, despite the storms of protest that went up all over the country, nursed the bill through Congress. Even Secretary Chase then, and later when he was chief justice of the Supreme Court, declared them unconstitutional.

The first issue printed was for $150,000,000. This act permitted the government to give the farmer or the manufacturer its "paper money," or noninterest bearing note, in return for food and war munitions. During the last year of the war there were $450,000,000 worth of "paper money" in circulation.

Postage Stamps Used as Money.

At the close of the first year of the war silver coins had practically disappeared from circulation. Citizens, when they saw the desperate straits in which the government was struggling, began to hoard the silver, which, even if the government should fail, would be of value to the possessor, whereas "paper money" would be worthless. When the housekeeper went to the grocer or butcher to purchase food she paid in postage stamps. In a short time the postage stamp became the nickel, dime, quarter and half dollar of exchange. Within three months the postal department printed and issued over $100,000,000 worth of stamps to meet the demand.

This led to another unique custom. The manufacturer and large corporations began to issue their own money—small bills to pay accounts and to buy merchandise. Cities and towns quickly followed suit and printed similar bills for the payment of taxes and licenses. These were the famous "shinplasters," a name which quickly sprang into use. The government became frightened at the threatened collapse of its currency system, and, to offset the confusion that was already arising, it began the printing of fractional currency on paper—the denominations including 50, 25, 10, and 3 cents.

Father of the National Banks.

The outgrowth of all these financial difficulties of the Civil War is the modern national bank. When silver coin began to be hoarded, the State banks stopped issuing specie, and necessarily the government followed suit. The country was on the verge of panic. The State bank system had never been eminently satisfactory, because notes issued by each were usually only good within each State—and sometimes not even there. The trader in Maine had difficulty in having his bank's notes accepted in Louisiana. Even if they were accepted they were subject to a large discount and a consequent loss to the trader.

Senator John Sherman, of Ohio, was the father of the act that at once solved the problem. He proposed that representative banks in towns should issue notes, which bore the pledge of the United States government to pay when due, in place of the State bank note, which had only the pledge of the banker himself. In return for this governmental guarantee of payment to the the holder of the note, the State bank was required to deposit United State bonds, in sums equal to the amount of notes issued, with the United States Treasury. The government furnished the notes, gratis.

This is the modern national banking system as it is to-day, and which makes all bank notes of equal value. A note drawn by a California bank and held by a Maine citizen is equally as good in Maine as it is in California to-day.

The first national bank was established in Philadelphia, on June 20, 1863. New Haven and Stamford, Conn., and Youngstown, Ohio, received certificates of organization on the same day. To-day there are over 7,000 national banks in the United States, whose transactions are now exceeding a half billion dollars a day. In the clearing house at New York alone more than two trillion dollars has passed under its supervision since its organization—or to be exact, $2,230,144,292,000.

On the Verge of Financial Ruin.

It has frequently been said that Morgan saved the country in the financial panic of 1907. It can be much more truly said that Jay Cooke saved the nation in the Civil War when it was on the brink of financial catastrophe. It was he who, as financier, placed over $2,000,000,000 worth of United States bonds with the bankers of the United States during the war. He was one of the ablest financiers of the day, and his services to the government have been called the most remarkable feat of financiering known to history. At twenty-one years of age Cooke was the business manager and a member of the largest private banking house in the United States.

The financiering of the Confederacy is even more remarkable. It is little known as the records were either lost or destroyed at the close of the war. Its methods, however, were skilful and represented the highest integrity. It floated bonds in return for money, and the bonds were taken up by individuals, banking houses, and bankers in the South and Europe. Its first call was for $15,000,000, which was readily taken up.

Its obstacles seemed overwhelming. A new currency had to be supplied in place of that which had come from Washington in the antebellum days. There were no engravers in the South, and note paper could not be manufactured. It was necessary at first to secure small quantities from the North, and a lithographer was brought to Alabama. The government was transferred to Richmond, where there were greater business conveniences and the Cabinet officers could be located in the new custom house building which the United States had recently erected. A bureau of engraving and printing was established, under the firm name of Hoyer and Ludwig, on Main Street, convenient to the government buildings. The German lithographer obtained an assistant from Baltimore, and these two men set about printing "money" for the Confederacy from a lithographing stone.

The first proofsheet was presented to the Secretary of Treasury and he accepted it. A few years ago this proofsheet was in possession of Chief Clerk Henry D. Capers, in Atlanta, Ga., and held as a valuable curiosity. On the back are these words in the handwriting of the Secretary of the Treasury: "When the money changers become more familiar with the peculiar features of these uncanny bills, it will be as difficult to pass a counterfet as if they had been engraved on steel by an expert—maybe more so."

Six Hundred Million Dollars of Paper Money.

The Confederates' bills were printed by hand—a slow and laborious process—until machinery had been set up. Before the close of the war over 600,000,000 dollars worth were in circulation, or three times the amount required by the business of the South. For the first six months it retained its par value; but latter to gradually depreciate. The battles of Gettysburg and Vicksburg sent it down 1,000 per cent, until in April, 1865, it had no purchasing value at all. At times during the war $600 in Confederate money was required to buy a soldier a pair of socks. Some of the postal clerks at Richmond found it necessary to resign their positions because they could not live on a salary of $9,000 in Confederate money. Even the standard value of gold—a standard that seldom varies the world over—changed, but upward. Fifty cents in gold would pay a week's board, which ordinarily would have cost $2.50.

The Confederate government went into the trading business. It purchased goods and supplies direct from the farmer and the manufacturer, paying with bonds. It sought and obtained the cotton from planters and attempted to sell it. A direct tax was levied—all to provide financial means for maintaining the army.

Guns and Powder for Three Million Men.

The task of securing money for the fighting armies is one of the most interesting phases of warfare. The cost of guns alone is a tremendous item—and powder becomes almost like gold dust. The armies of the North and South went to war practically without guns. The reason that President Lincoln called for only 75,000 volunteers—when there was thrice that number ready—was because there were not enough guns to equip more troops. The first regiment to reach Washington—from Pennsylvania—had only 30 guns in the entire number of men—the rest carried clubs and whatever weapons they could find.

The arsenal and armories of the United States located within the Southern States were taken over by the Confederacy—and the Union was practically without a source of supply. The greatest loss was the armory at San Antonio, Texas, where $400,000 worth of small arms, muskets and powder became the property of the Confederacy. Harper's Ferry, Va., had 15,000 muskets, but these were destroyed, together with the machinery, in April, 1861, to save the munitions from falling into the hands of the Confederacy when Jackson marched against the arsenal.

The largest and practically the only armory that could produce any large quantity of guns was at Springfield, Mass. Before the war its capacity was 25,000 muskets annually. The buildings were enlarged until 100,000 guns were being manufactured every year. Later the plant again was increased, until nearly 300,000 guns was its records.

The Tremendous Task of Waging War.

At the beginning of the war there were in the United States only 231 field cannon, 460,000 firearms for infantry, 30,000 for the cavalry, and 17,000 sabres for the troopers. The total number of pounds of gunpowder was 1,000,000; 1,300,000 pounds of lead and lead bullets, 19,000,000 percussion caps and 8,000,000 cartridges for small arms.

The artillery, both field and seacoast, had 360,000 cannon balls and shells; 84,000 friction primers, and 28,000 cartridges. There were less than 600 harnesses for the artillery horses, and about the same number for the horses of the cavalry.

It cost the United States during the year from June, 1862, to July, 1863: $42,313,630 for arms and munitions of war for its soldiers. It bought nearly 350,000,000 percussion caps to be used on the muskets; 260,000,000 cartridges for small arms—muskets, rifles, pistols and revolvers—more than 1,000,000 muskets and rifles for foot soldiers, and nearly 6,000,000 pounds of gunpowder and 50,000,000 pounds of lead and bullets. For the cavalry service it purchased nearly 300,000 carbines and pistols. The artillery was supplied with 1,577 cannon, 1,260,000 cannon balls and shells, 1,500,000 cartridges, 4,000,000 friction primers.

Men Still Living Who Know the Secrets.

The records of the Confederate ordnance department were destroyed when Richmond was abandoned, and therefore accurate statements of supplies and purchases are difficult to secure. There are but one or two men living on this semi-centennial who can give any information regarding it. Professor J. W. Mallett, who was in charge of the ordnance laboratories for the Confederacy, is still living at Charlottesville, and is one of the great chemists of the day. Members of the family of General Gorgas, who was the chief of ordnance for the Confederate government, are still living in Alabama, and his son, Dr. M. C. Gorgas, is now chief sanitary officer in the building of the Panama Canal. The private records held by these persons are about the only sources for authentic information on this anniversary.

When General Gorgas became the chief of ordnance, he found in the armories in the South 15,000 rifles and 120,000 inferior muskets, some of which dated back to the War of 1812; many of them had served in the war with Mexico. There was a very small supply of powder at Baton Rouge and Mt. Vernon, which had remained from the campaign in Mexico. There were no cavalry arms at all.

Before the naval blockade became stringent the Confederacy obtained guns and powder from Europe, but this source of supply was soon closed, and then the ordnance officers found it necessary to turn to home products. The story of the arming of the Confederate armies is one of tremendous difficulty which was overcome by marvelous courage and ability.

The government sent broadcast throughout the South for arms—anything in the opinion of the owner that "looked as if it could be made to shoot." They stripped bare their homes, sending to the armorer at Richmond wonderful appearing weapons—pepper-box revolvers, single and double-barreled; self-cocking revolvers, some with a hidden trigger that snapped into sight as the weapon was cocked. One of the most curious was a three-barreled gun, two barrels made for shot and the third rifled for bullets.

Swords and Bullets for Warfare.

When the armorer, Joel B. Sutherland, received a consignment of old Kentucky rifles he was greatly pleased—for these same rifles were the ones he had made years before. They were between five and six feet long, but made of the best metal. These were remodeled and only supplied to sharpshooters.

John Brown designed a pike for the use of his followers in their raids, and many of these came to the armorer to be made into weapons of war. They were double-edged blades about eighteen inches long and three wide, ground to a fine point; the blade was fastened to the end of a six-foot pole. Later in the war the hundreds of pikes turned out by the armorer were converted into sword bayonets to be attached to the short German rifle.

The Confederacy had no bullets, and very little available lead with which to make them. Its supply of powder would last through only a single large battle. The emergency was urgent. The government sent squads of men through the South to gather whatever material they could and wherever they could. Country stores and village groceries carried small stores of powder. The law permitted groceries to carry a test in which, 360 grains of powder were used with a bullet double the size of the service bullet. The service charge of powder was sixty grains. The average found wanting in the test was one in 150. These guns cost the government, complete, $14.93 each.

The guns imported from Europe cost from $5 to $30 each. The Prussian and Austrian smooth-bore service gun costing the former price, the better made Enfield English-made gun cost the latter price.

Fifty years ago the greatest private gun manufacturer was the Colt Firearms Company at Hartford, Conn., which produced firearms, carbines and the then new revolver, or six-shooter. The capacity of this plant was more than 1,000 of all arms a day.

Another popular gun of the day was the Sharp's rifle, which was manufactured extensively at Hartford and Philadelphia. General Burnside invented a cavalry carbine which answered all the purposes required, but which was not adopted extensively because of its expensive cost of manufacture.

Fortunes Created by Making Utensils for Battle.

Many of the great gun makers of to-day first began their business in the Civil War. Remington, Savage, Maynard, Smith & Wesson and many others were the private manufacturers a half century ago whose product was bought by the War Department and supplied to the armies in the field.

All the cannon and heavy ordnance was manufactured by private manufacturers. The Rodman gun was invented by Captain Rodman, of the Ordnance Corps, and was then one of the largest guns in existence. Its total length was nearly sixteen feet, four feet in diameter and weighed 49,000 pounds. It fired a shot weighing 320 pounds and required thirty-five pounds of powder. Its range was a little over three miles.

The largest cannon manufactory was at Cold Springs, N. Y., where the famous Parrott guns were made for the Union. During the first year of the war this factory turned out 544 cannon, ranging between ten-pounders and 100-pounders, and 119,000 projectiles for the ordnance pieces.

When peace came, and the soldiers returned to their homes, there were over a million firearms stored in the national armories, and 500,000 guns of foreign make. For many years these were kept ready to resist any army of invasion that attempted to attack the United States.

This phase of warfare has been practically unknown, and it is not until the recent investigations on this anniversary that its inside secrets have been revealed.